

Message Text

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ORIGIN XMB-07

INFO OCT-01 EA-11 EB-11 ISO-00 COME-00 TRSE-00 SP-03

AID-20 NSC-07 RSC-01 CIEP-03 SS-20 STR-08 OMB-01

CEA-02 FRB-03 IGA-02 CIAE-00 DODE-00 PM-07 H-03

INR-11 L-03 NSAE-00 PA-04 PRS-01 USIA-15 FEA-02 INT-08

SCI-06 /160 R

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DRAFTED BY XMB:RYOUTZ

APPROVED BY EB/OCA/REP:LAKLIEFORTH

EB/IFD/EMLINTON

XMB:WALTER C SAUER

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R 302155Z AUG 74

FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA

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ATTENTION: MR. HEGINBOTHAM

FOR WILLIAM J. CASEY, CHAIRMAN, EXIMBANK

FROM WALTER C. SAUER

E.O. 11652: N/A

TAGS: ETRD, EFIN, US, ID

SUBJECT: EXIMBANK CREDIT 5242 - INDONESIA

ATLANTIC RICHFIELD INDONESIA INC. (ARII) HAS INFORMED
EXIMBANK THAT ONE SECTION OF THE CONTRACT ON WHICH THE
NATURAL GAS LIQUIDS PLANT (PROJECT) FINANCED BY THE ABOVE-
REFERENCED CREDIT IS BASED, THE PRODUCTION SHARING CONTRACT
(CONTRACT) BETWEEN P.N. PERTAMBANGAN MINJAK NASIONAL
(PERTAMINAS) AND INDEPENDENT INDONESIAN AMERICAN PETROLEUM
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COMPANY (IIAPCO) DATED AUGUST 18, 1966, PROVIDES THAT ALL

EQUIPMENT PURCHASED BY IIAPCO IN CONNECTION WITH THE PROJECT, INCLUDING THE ITEMS FINANCED BY EXIMBANK, BECOMES THE PROPERTY OF PERTAMINAS WHEN LANDED AT THE INDONESIAN PORT OF IMPORT.

NORMALLY EXIMBANK WOULD BE PROTECTED BY, AMONG OTHER THINGS, CERTAIN AFFIRMATIVE AND NEGATIVE COVENANTS COVERING THE FINANCED ITEMS IN THE CREDIT AGREEMENT. THESE INCLUDE COVENANTS THAT THE ITEMS (I) WILL BE MAINTAINED IN WORKING ORDER, (II) WILL BE USED ONLY IN INDONESIA AND WILL NOT BE EXPORTED TO OTHER COUNTRIES, (III) WILL NOT BE LEASED OR SOLD AND (IV) WILL NOT BE SUBJECTED TO MORTGAGES, LIENS, ETC. BECAUSE THE ITEMS WILL BE OWNED BY PERTAMINAS, THE BORROWERS WILL NOT BE ABLE TO MAKE THESE COVENANTS TO EXIMBANK.

WE FEEL EXIMBANK SHOULD RECEIVE SOME TYPE OF FORMAL ASSURANCES FROM PERTAMINAS AND THE GOVERNMENT OF INDONESIA (GOI) THAT PERTAMINAS AND GOI ARE AWARE OF THE EXIMBANK CREDIT, RECOGNIZE THE NEED FOR EXIMBANK TO HAVE THE TYPE OF PROTECTION GIVEN BY THE AFOREMENTIONED COVENANTS AND THUS, WILL NOT INTERFERE WITH OUR INTERESTS IN THE ITEMS DURING THE LIFE OF THE EXIMBANK CREDIT (TWENTY SEMIANNUAL INSTALLMENTS BEGINNING SEPTEMBER 10, 1976).

SECOND POSSIBLE PROBLEM IS THAT THE CONTRACT PROVIDES THAT PERTAMINAS AND IIAPCO WILL SHARE THE OIL AND GAS PRODUCTS OF THE PROJECT WITH THE SALE OF IIAPCO SHARE ABROAD BEING IIAPCO'S INCOME FROM THE PROJECT. EXIMBANK'S REPAYMENTS WILL COME FROM THIS INCOME. SINCE SALES WILL BE OUTSIDE OF INDONESIA AND THERE IS NO REQUIREMENT FOR INCOME TO BE RETURNED TO INDONESIA, THERE DOES NOT APPEAR TO BE PROBLEM OF ASSURANCERS FROM GOI THAT DOLLARS WILL BE RELEASED TO SERVICE REPAYMENTS WHEN DUE OF EXIMBANK CREDIT. THERE DOES SEEM TO BE INHERENT PROBLEM THAT GOI OR PERTAMINAS COULD STOP PRODUCTION OF OIL AND GAS AND THEREBY CUT OFF FLOW OF FUNDS TO SERVICE DEBT. WE FEEL EXIMBANK SHOULD RECEIVE SOME ASSURANCES THAT DURING LIFE OF EXIMBANK CREDIT PERTAMINAS AND GOI WOULD RECOGNIZE EXIMBANK'S INTERESTS AND REFRAIN FROM TAKING ACTIONS WHICH WOULD ADVERSELY AFFECT SUCH LIMITED OFFICIAL USE

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INTERESTS.

COULD YOU OR SOMEONE WITH YOU INVESTIGATE POSSIBILITY OF SUCH ASSURANCES BEING GIVEN TO EXIMBANK AS CONDITIONS PRECEDENT TO DISBURSEMENT OF EXIMBANK CREDIT? INGERSOLL

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Disposition Approved on Date:
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